

Message Text

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TAGS: OVIP (ROBINSON, C.W.)
SUBJECT: VISIT OF DEPSEC ROBINSON: BRIEFING PAPER: ECON-
OMIC OUTLOOK

1. THE PHILIPPINE ECONOMY ENTERS THE SECOND HALF OF 1976 IN REASONABLY SOUND CONDITION, ALTHOUGH THERE ARE SOFT SPOTS, PARTICULARLY IN THE EXTERNAL SECTOR. GNP CONTINUES TO INCREASE AT A MODERATE RATE (ABOUT 5 PERCENT IN REAL TERMS), AIDED BY MODEST GROWTH IN BOTH INDUSTRY AND AGRICULTURE. BARRING SERIOUS WEATHER DIFFICULTIES, THE PHILIPPINES SHOULD AGAIN ACHIEVE

SELF-SUFFICIENCY IN FOOD PRODUCTION THIS YEAR. PRODUCTION IN THE EXTRACTIVE INDUSTRIES IS INCREASING, AND THE RISING TREND IN INTERNATIONAL COMMODITY PRICES COULD, IF SUSTAINED, LAUNCH THE ECONOMY INTO A MORE EXPANSIONIST PHASE BY 1977.

2. INFLATION DURING THE FIRST HALF OF 1976 WAS AT THE MODEST ANNUAL RATE OF 5.3 PERCENT. HOWEVER, THIS PROBABLY REPRESENTS A DECEPTIVE TROUGH COINCIDENT WITH POOR EXPORT PRICES AND A PLATEAU IN IMPORT PRICE INCREASES. THE ANNUAL INFLATION RATE FOR FIRST HALF OF 1975 WAS 13.6 PERCENT, AND FOR JUNE 1976 WAS 9.3 PERCENT, INDICATING THAT PRICE STABILITY MAY OWE MORE TO IMPORTED RECESSION THAN TO CONSCIOUS GOP POLICY. OTHER CONTRIBUTORS TO INFLATIONARY PRESSURE WERE A CASH BUDGET DEFICIT OF ABOUT \$50 MILLION IN THE FIRST HALF OF 1976 (COMPARED TO A SURPLUS OF SOME \$160 MILLION IN THE FIRST HALF OF 1975), COMBINED WITH A 23 PERCENT GROWTH IN MONEY SUPPLY IN THE TWELVE
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MONTHS ENDING JUNE 1976. ALTHOUGH THE JUNE INFLATION RATE WAS

INFLUENCED BY HIGHER FRUIT, VEGETABLE, AND LIVESTOCK PRICES OWINT TO TYPHOON OLGA (ESTIMATED DAMAGE \$81 MILLION), THE UNDERLYING TREND NEVERTHELESS INDICATES THAT FIRMER GOVERNMENT POLICIES WILL BE NEEDED IF THE PHILIPPINES IS TO AVOID A RETURN TO HIGHER RATE OF INFLATION BY 1977.

3. THE BALANCE OF PAYMENTS CONTINUED TO CAUSE CONCERN. THE FIRST HALF TRADE DEFICIT WAS \$543 MILLION, SOMEWHAT WORSE THAN FORECAST, PRINCIPALLY BECAUSE OF MIXED RESULTS BY THE PHILIPPINES PRINCIPAL EXPORTS. COPPER AND COCONUT PRODUCTS EXPORTS WERE UP, AIDED BY RISING PRICES, BUT SUGAR AND LOG EXPORTS (30 PERCENT OF PHILIPPINE TOTAL) DECLINED OWING TO FALLING WORLD SUGAR PRICES AND TO DELIBERATE GOP POLICIES RELATING TO THE FOREST PRODUCTS INDUSTRY. NET EARNINGS OF INVISIBLE ACCOUNT WERE ALSO LOWER THAN LAST YEAR, WITH THE RESULT THAT THE PHILIPPINES EXPERIENCED A FIRST HALF CURRENT ACCOUNT DEFICIT OF \$384 MILLION, COMPARED TO A SHORTFALL OF \$151 MILLION IN FIRST HALF 1975.

4. THE CURRENT ACCOUNT DEFICIT WAS OFFSET BY IMPROVEMENT ON CAPITAL ACCOUNT. PRIVATE SECTOR CAPITAL INFLOWS (LONG AND SHORT TERM) TOTALLED \$206 MILLION, AND GOVERNMENT COMPENSATORY BORROWINGS \$227 MILLION, RESULTING IN A MODERATE \$54 MILLION INCREASE IN RESERVES TO \$1.14 BILLION. THE GOP'S DEBT SERVICE RATIO IS ABOUT 13.8 PERCENT, AND ITS INTERNATIONAL CREDIT RATING APPEARS GOOD. IT HAS AVAILABLE TO IT AN ESTIMATED \$0.8 TO 1.0 BILLION IN UNDRAWN REVOLVING CREDITS AND BALANCE OF PAYMENTS SUPPORT BORROWINGS, AND THE OUTLOOK IS THAT IT SHOULD MOVE INTO 1977 WITH ITS RESERVES SUBSTANTIALLY INTACT AND WITH IMPROVED BALANCE OF PAYMENTS PROSPECTS.

5. AN INTERESTING ISOLATED DEVELOPMENT IS THAT THE GOP IS ABOUT TO FLOAT A \$367 MILLION BOND ISSUE ON THE NEW YORK MARKET. THIS BOND ISSUE IS GUARANTEED BY THE U.S. EXIMBANK AND REPRESENTS THE GUARANTEED PORTION OF THE NUCLEAR POWER PROJECT BORROWING. THE RATE IS EXPECTED TO FALL BETWEEN 8.15 AND 8.50 PERCENT. WE UNDERSTAND THAT THIS IS THE FIRST TIME THE EXIMBANK HAS GUARANTEED A BOND ISSUE. PHILIPPINE AUTHORITIES APPEAR PLEASED THAT THEY HAVE BEEN CHOSEN FOR THIS EXPERIMENT WHICH THEY SEEM TO REGARD AS AN EXPRESSION OF EXIMBANK CONFIDENCE IN LIMITED OFFICIAL USE

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THEIR ECONOMIC PERFORMANCE.
SULLIVAN

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